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JON S. CORZINE
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RONALD K. CHEN
Public Advocate
STEFANIE A. BRAND
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February 3, 2009

NOTICE OF FILING

**Re: Application For Review of the Wireline Competition Bureau Approval of the
Compliance Plans of AT&T, Verizon and Qwest
WC Docket Nos. 07-21, 07-273, and 07-204**

The National Association of State Utility Consumer Advocates and the New Jersey Division of Rate Counsel sent by overnight on January 29, 2009 its Application for Review in the above matters. A copy of the filing is attached hereto.

Very truly yours,

RONALD K. CHEN.
PUBLIC ADVOCATE

Stefanie A. Brand
Director, Division of Rate Counsel

By:

Christopher J. White, Esq.
Deputy Public Advocate

CC: Service List



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January 29, 2009

VIA OVERNIGHT MAIL AND FAX

Marlene H. Dortch, Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street, SW
Washington, DC 20554

**Re: Application For Review of the Wireline Competition
Bureau Approval of the Compliance Plans of AT&T,
Verizon and Qwest
WC Docket No. 07-21**

Dear Secretary Dortch:

Enclosed for filing an original and (4) copies of the Application for Review filed by National Association of State Utility Consumer Advocates and the New Jersey Division of Rate Counsel in the above reference matter. Kindly return two copies marked "filed" in the enclosed self-addressed stamped envelopes provided.

Very truly yours,

RONALD K. CHEN.
PUBLIC ADVOCATE

Stefanie A. Brand
Director, Division of Rate Counsel

By:

Christopher J. White, Esq.
Deputy Public Advocate

CC: Service List

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of

Petition of AT&T Inc. For Forbearance
Under 47 U.S.C. § 160 From Enforcement
Of Certain of the Commission's
Cost Assignment Rules

WC Docket No. 07-21

Review of AT&T, Verizon and Qwest
Compliance Plans

To: Secretary, Federal Communications
Commission

**APPLICATION FOR REVIEW FILED BY
NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES
AND THE
NEW JERSEY DIVISION OF RATE COUNSEL**

The National Association of State Utility Consumer Advocates ("NASUCA") as an organization,¹ and one of its members, the New Jersey Division of Rate Counsel ("Rate Counsel")² (collectively, "State Advocates") hereby file this Application for Review in

¹ /NASUCA is a voluntary association of advocate offices in more than 40 states and the District of Columbia, incorporated in Florida as a non-profit corporation. NASUCA's members are designated by the laws of their respective jurisdictions to represent the interests of utility consumers before state and federal regulators and in the courts. See, e.g., Ohio. Rev. Code Chapter 4911; 71 Pa.Cons.Stat. Ann. § 309-4(a); Md. Pub.Util.Code Ann. § 2-205; Minn. Stat. § 8.33; D.C. Code Ann. § 34-804(d). Members operate independently from state utility commissions as advocates primarily for residential ratepayers. Some NASUCA member offices are separately established advocate organizations while others are divisions of larger state agencies (e.g., the state Attorney General's office). NASUCA's associate and affiliate members also serve utility consumers but are not created by state law or do not have statewide authority.

² / Rate Counsel is an independent New Jersey State agency that represents and protects the interests of all utility consumers, including residential, business, commercial, and industrial entities. Rate Counsel participates actively in relevant Federal and state administrative and judicial proceedings. The above-captioned proceeding is germane to Rate Counsel's continued participation and interest in implementation of the Telecommunications Act of 1996 ("Act" or "1996 Act"). Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 ("1996 Act"). The 1996 Act amended the Communications Act of 1934. Hereinafter, the Communications Act of 1934, as amended by

accordance with Section 1.115 of the Federal Communications Commission's ("FCC" or "Commission") rules,³ seeking review of the decision of the Wireline Competition Bureau ("Bureau") issued on December 31, 2008 in which the Bureau approved the three compliance plans filed by AT&T Inc., Verizon Communications, Inc., and Qwest Corporation for those companies to receive forbearance from the Commission's cost allocation rules.⁴

The Bureau summarily held that AT&T, Verizon and Qwest satisfied the conditions that they describe in detail how they will continue to fulfill their statutory and regulatory obligations after the grant of various forbearance petitions. The State Advocates seek reversal of the Bureau's decision that approved the three compliance plans and ask that the Commission vacate the Bureau's approval and instruct the Bureau to reopen the compliance proceedings and evaluate whether the conditions offered by the opposing parties are in the public interest and should be imposed as necessary and proper conditions.

Executive Summary

State Advocates submit that the Bureau's approval is arbitrary, capricious and an abuse of discretion in that the compliance plans are inadequate to ensure that statutory and regulatory obligations imposed by the Commission are in fact met. In addition, State Advocates submit that the

the 1996 Act, will be referred to as "the 1996 Act," or "the Act," and all citations to the 1996 Act will be to the 1996 Act as it is codified in the United States Code.

³/ See 47 C.F.R. § 1.115.

⁴ / See *Public Notice*, DA 08-2827, dated December 31, 2008, citing *Petition of AT&T Inc. for Forbearance under 47 U.S.C. § 160 from Enforcement of Certain of the Commission's Cost Assignment Rules*, WC Docket Nos. 07-21, 05-342, Memorandum Opinion and Order, 23 FCC Rcd 7302 (2008) ("*AT&T Cost Assignment Forbearance Order*"), *pet. for recon. pending, pet. for review pending sub nom. NASUCA v. FCC*, Case No. 08-1226 (D.C. Cir. filed June 23, 2008), and *Service Quality, Customer Satisfaction, Infrastructure and Operating Data Gathering*, et al., WC Docket Nos. 08-190, 07-139, 07-204, 07-273, 07-21, Memorandum Opinion and Order and Notice of Proposed Rulemaking, FCC 08-203, 23 FCC Rcd 13647 (2008) ("*Multi-ILEC Forbearance Order*", paras. 27-28.

Bureau failed to address specific concerns raised in comments, which if addressed would have resulted in rejection or modification of the plans.

The one-page order concludes with the following statements:

After review of the compliance plans filed by AT&T, Verizon and Qwest, and the record of this proceeding, the Bureau approves the three plans effective immediately. We now find that AT&T, Verizon and Qwest have satisfied the condition that they obtain Bureau approval of compliance plans describing in detail how they will continue to fulfill their statutory and regulatory obligations.

There is no discussion whatsoever of the individual items required by the Commission, and no discussion of the many issues raised in the comments. Such failure to address and discuss such concerns violates the Administrative Procedure Act and requires reversal of the Bureau's actions. As a result, the Commission should reverse and vacate the Bureau's approval, and remand the matter to the Bureau with directions to fully consider the matters raised by State Advocates and others, obtain additional comments on the recommendations made by State Advocates and others, and put any revised plans out for further comment.

BACKGROUND

On April 24, 2008, the Commission conditionally granted AT&T's and BellSouth's (collectively AT&T) petitions for forbearance from section 220(a)(2) of the Act (to a limited extent) and various rules, including the following: section 32.23 (nonregulated activities); section 32.27 (transactions with affiliates); Part 64, Subpart I (allocation of costs); Part 36 (jurisdictional separations procedures); Part 69, Subparts D and E (cost apportionment); and other related rules that are derivatives of, or dependent on, the foregoing rules.⁵ The Commission referred to the statutory provision and Commission rules from which AT&T sought forbearance collectively as the "Cost Assignment Rules." The grant was expressly conditioned on, among other things, the

⁵/ *AT&T Cost Assignment Forbearance Order.*

Wireline Competition Bureau's approval of a compliance plan to be filed by AT&T. On September 6, 2008, the Commission extended forbearance from the Cost Assignment Rules to Verizon and Qwest to the same extent granted to AT&T and subject to the same conditions.⁶

On July 24, 2008, AT&T filed its compliance plan; on September 19, 2008, Verizon filed its compliance plan; and on September 24, 2008, Qwest filed its compliance plan. The Bureau issued three Public Notices setting comment and reply comment dates for each filing.⁷ State Advocates and others filed comments asking that the Bureau reject the plans, or modify such plans to ensure that accounting procedures and data are maintained in a manner that will permit the Commission and others have the necessary information and data, if necessary in subsequent proceedings.

Each plan is essentially identical with one another. Although each plan purportedly responds to the specific directives set forth in the Commission's order approving forbearance from certain cost assignment rules, State Advocates submit that in fact the plans do not comply with the directives required by the Commission. By way of example, in the *Multi-ILEC Forbearance Order*, the Commission identified an additional issue for Verizon (and Qwest): the need for cost-assignment data for the regions where Verizon (and Qwest) receive federal rural high-cost support.⁸ The Commission said that this could be addressed in the compliance plans.⁹ But Verizon and Qwest proposed a mere "band-aid" approach to this issue for the study areas in question.¹⁰

⁶/ *Multi-ILEC Forbearance Order*, paras. 27-28.

⁷/ See *Public Notice* DA-08-1826, dated July 31, 2008; *Public Notice* DA 08-2136, dated September 19, 2008; and *Public Notice* DA 08-2175, dated September 23, 2008.

⁸ / *Multi-ILEC Forbearance Order*, ¶ 30.

⁹ / *Id.*

¹⁰ / Verizon Compliance Plan at 5-6.

Legal Argument

POINT 1

The Bureau's Approval Of The Plans Is Arbitrary, Capricious And An Abuse Of Discretion And The Approval Should Be Vacated

The Commission conditioned its approval of AT&T's petition of forbearance from cost assignment rules on the approval of a compliance plan filed by AT&T that would describe "in detail how it will continue to fulfill its statutory and regulatory obligations, including sections 272(e)(3) and 254(k), and the conditions of this Order."¹¹ Subsequently, the Commission extended the grant of forbearance from the cost allocation rules to Verizon and Qwest.¹² AT&T, Verizon and Qwest filed compliance plans.¹³ Comments were filed on all three compliance plans.

The Commission ordered that all plans include the following:

- A description of imputation methodology that demonstrates that its access charge imputation methodologies remain consistent with section 272(e)(3) and the Section 272 Sunset Order;
- First annual certifications for each plan and that each plan will comply with 254(k) obligations in the absence of cost assignment rules and that it will provide any requested cost accounting information necessary to prove such compliance;
- A proposal for how the plans will maintain its accounting procedures and data in a manner that will allow it to provide useable information on a timely basis if

¹¹ / *AT&T Cost Assignment Forbearance Order*, at para. 1.

¹² / *Multi-ILEC Forbearance Order*, paras. 27-28. The Commission has referred to the *Multi-ILEC Forbearance Order* as the *Verizon/Qwest Cost Assignment Forbearance Order*. See DA 08-1236 (rel. September 23, 2008).

¹³ / 07-21, Compliance Plan filed July 24, 2008 ("AT&T Compliance Plan"); 07-21, Compliance Plan filed September 19, 2008 ("Verizon Compliance Plan") (as its Compliance Plan indicates at 1, "Verizon" refers to the "wholly owned incumbent local exchange carrier ("ILEC") subsidiaries of Verizon Communications Inc.); id., Compliance Plan filed September 24, 2008 ("Qwest Compliance Plan") (as its Compliance Plan indicates at 1, the Plan is filed on behalf of Qwest and its ILEC affiliates).

requested by the Commission to comply with any of the conditions of this relief and its commitment¹⁴ to the Commission; and

- An explanation of the transition process that companies will undertake, including an expected schedule, to discontinue compliance with the Cost Assignment Rules and replace them with the procedures outlined in its compliance plan upon approval of the plan.¹⁵

The Plans Will Not Generate Useable and Timely Data

State Advocates concur with Sprint Nextel Corporation, COMPTel, tw telecom, Inc. and OneCommunications Corp. (“Sprint Nextel Joint Comments.”) that the plans will not generate useable and timely data so that the integrity of both costs and revenues are available and reliable in the future.

The Sprint Nextel Joint Comments offered a comprehensive methodology in order to satisfy the specific requirement that usable information on a timely basis to ensure statutory obligations are met and the “Blueprint Plan” as the more appropriate methodology to satisfy the requirement. The Blueprint Plan is a straightforward service-specific top-down approach, which identifies and assigns the costs for the interstate access services, and allows cost assignments to be determined in a manner that reflects how investments and expenses were incurred. The Blueprint Plan offers simplified data collection obligations while offering consistency and accountability that can produce useable and timely data to the Commission.¹⁶

¹⁴/ The “commitment” to which the Commission refers is AT&T’s commitment to provide an annual certification that it does not cross-subsidize (and thus complies with its 254(k) obligations) as promulgated in the condition in the preceding bullet. AT&T made this commitment in *ex partes* filed in the proceeding. See, *AT&T Cost Assignment Forbearance Order*, at para. 31 and fn. 113 citing 07-21, Letter from Gary L. Phillips, General Attorney & Associate General Counsel, AT&T Services Inc., to Marlene Dortch, Secretary, FCC, filed Apr. 18, 2008 (“AT&T Apr. 18 Ex Parte Letter”), at 2 and id., Letter from Robert W. Quinn, Senior Vice President – Federal Regulatory, AT&T Services Inc., to Marlene Dortch, Secretary, FCC, filed Apr. 22, 2008 (“AT&T Apr. 22 Ex Parte Letter”), at 3.

¹⁵/ *AT&T Cost Assignment Forbearance Order*, at para. 31.

¹⁶/ See Sprint Nextel Joint Comments dated August 18, 2008 at page 4-5.

Completion Of The Separations Proceeding Should Have Been A Condition Precedent To Approval

The State Advocates questioned how compliance with Section 254(k) of the 1996 Act could be ensured. Section 254(k) provide:

A telecommunications carrier may not use services that are not competitive to subsidize services that are subject to competition. The Commission, with respect to interstate services, and the States, with respect to intrastate services, shall establish any necessary cost allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.¹⁷

Despite this unambiguous statutory mandate, the FCC and state regulators have not yet established and enforced the necessary cost allocation rules and cost accounting safeguards to “ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.” State Advocates urged completion of the separations factors as a necessary condition in order to approve any compliance plan.¹⁸ The Bureau simply ignored State Advocates concern and failed to explain why such concerns do not adversely impact whether the compliance plans are adequate to satisfy the requirements imposed by the Commission.

In order to ensure proper cost allocation, the State Advocates asked the Bureau to impose third-party periodic audits to be done under Commission supervision. Such periodic audits will protect consumers and competitors from improper cost allocation and

¹⁷/ 47 U.S.C. § 254 (k).

¹⁸/ See State Advocates’ Reply Comments dated September 3, 2008 at pages 8-9.

ensure that the Commission's regulatory objectives are met. The Bureau failed to respond.

The Proposal For Updating Ratios Between Regulated And Non-Regulated Cost Categories Is Inadequate

Under the proposed plans, each company would update ratios between regulated and non-regulated cost categories "as it sees fit to do so" and maintain only the most recent calendar year cost allocation manual ("CAM") ratios. Each company conditions making any subsequent changes on two conditions: (1) changes render the ratios significantly less reliable and (2) updates are not excessively burdensome. State Advocates concurred that such commitments without an agreed-upon method to update CAM ratios lack necessary detail to protect consumers and competitors from reporting that is skewed and unreliable. As a result, State Advocates support direct cost assignment, where practical.

The problems identified by State Advocates and others are not remedied by the proposal to perform special cost studies to determine allocation factors, if requested by the Commission. The proposal lacks sufficient detail about how such special studies would be done to ensure effective oversight to protect the public interest. More importantly, there are no provisions permitting review by interested parties of the cost studies and the underlying data, work papers and other documentation associated with such special studies. The Bureau simply failed to discuss or address these obvious deficiencies and explain why it rejected the recommendations offered.

All Plans Fail To Produce Useable And Timely Cost Data

Sprint Nextel Joint Comments identified problems in regard to AT&T's preservation proposal.¹⁹ These same problems are present in the plans offered by Verizon and Qwest. The CAM cost allocation ratios would become outdated, the lack of detail would enable manipulation of updates, transparency about special studies is lacking and the integrity of affiliate transactions would be jeopardized by the mere retention of documentation of methods and procedures for recording affiliate transactions. The Bureau failed to address or discuss these problems or detail why the Sprint Nextel Blueprint Plan does not strike the appropriate balance in order to ensure useable and timely data to satisfy the Commission's statutory and regulatory needs.

The Bureau failure to address the specific concerns raised by State Advocates and other commenters is the epitome of arbitrary, capricious agency action and a clear abuse of discretion. The plans, as approved, will not meet the conditions envisioned by the Commission when it granted forbearance to AT&T, Verizon and Qwest. As a result, the Commission should reverse, and vacate the Bureau's approval, and remand to the matter to the Bureau with directions to fully consider the matters raised by State Advocates and others, obtain additional comments on the recommendations made by State Advocates and others and put any revised plans out for further comment.

POINT 2

The Bureau's Failure To Address And Consider The Comments Of Various Parties Violates The Administrative Procedure Act And Warrant Setting Aside the Bureau's Approval

¹⁹/ Sprint Nextel Joint Comments, dated August 18, 2008 at pages 5-12.

The Bureau's issuance of a Public Notice approving the plans without any explanation and discussion of the concerns raised by State Advocates and others leaves fundamental gaps in the Bureau reasoning and such gaps warrant vacating the approval.²⁰ The Bureau's action leaves its underlying reasoning "intolerably mute" lacking enough clarify and detail to show why the concerns raised below do not warrant rejection or modification of the plans under review. Such failures constitute legal error.²¹

The Bureau's failure to respond to issues raised violates the requirements imposed under the Administrative Procedure Act. Comments demonstrating that a position in opposition is true require a response. All relevant factors should be considered and proposed changes considered.²² In addition, the Bureau's rejection and refusal to consider modifications of the plans, as requested, lacks evidentiary support and the approval is not supported by substantial evidence.²³

CONCLUSION

As a result of these errors, the Commission should reverse and vacate the Bureau's approval, and remand to the matter to the Bureau with directions to fully consider the matters raised by State Advocates and others, obtain additional comments on

^{20/} See *Mountain States Telephone and Telegraph Co. v. FCC*, 939 F.2d 1036, 1042 (D.C. Cir. 1991) ("Mountain States II").

^{21/} *Mountain States II*, 939 F.2d at 1035 (the record lacks sufficient clarity and detail to permit review).

^{22/} See *La. Fed. Land Bank Ass'n FLCA v FCA*, 336 F.3d 1075, 1080 (D.C. Cir. 2003); *Home Box Office, Inc. v. FCC*, 567 F.2d 9, 25 n. 58 (D.C. Cir. 1977), citing *Citizens to Preserve Overton Park, Inc. v. Volpe*, 401 U.S. 402, 416 (1971).

^{23/} The approval of the plans is a contested matter and an adjudication of whether the conditions set forth by the Commission are satisfied. See Sections 554, 556, and 557 of the Federal Administrative Procedure Act ("APA"), 5 U.S.C. §§ 554, 556 and 557. The Bureau conducted a notice and comment adjudication under the APA. The Bureau did not comply with applicable requirements contained in Sections 554, 556, and 557. Agency decisions should be reversed when not supported by substantial evidence (see *AT&T Corp. v. FCC*, 220 F.3d 607, 616 (D.C. Cir. 2000)).

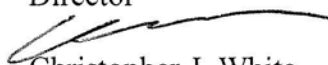
the recommendations made by State Advocates and others, and put any revised plans out for further comment.

Respectfully submitted,

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January 29, 2009

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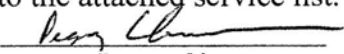
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)	
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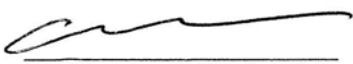
STATE OF NEW JERSEY)	
)	SS:
COUNTY OF ESSEX)	

Peggy Clemons, of full age, being duly sworn according to law, upon her oath deposes and says:

1. I am a Legal Secretary with the Division of the Rate Counsel. At the direction of Christopher J. White, Deputy Public Advocate, on January 29, 2009, I caused one copy of the Application for Review filed by National Association of State Utility Consumer Advocates and the New Jersey Division of Rate Counsel to be served by UPS overnight delivery, hand delivery and/or fax to the attached service list.


Peggy Clemons
Legal Secretary

Sworn and subscribed
before me this 29th
day of January, 2009


Christopher J. White, Esq.
Attorney at Law
State of New Jersey

**SERVICE LIST FOR APPLICATION FOR REVIEW ON
WIRELINE COMPETITION BUREAU'S APPROVAL OF COMPLIANCE
PLANS FOR AT&T, VERIZON AND QWEST**

WC DOCKET No. 07-21

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